

ORIGINAL



0000039946

MEMORANDUM

30A

TO: Docket Control 2006 JAN 25 P 3: 12

FROM: Ernest G. Johnson ~~AZ CORP COMMISSION~~  
*for* Director ~~DOCUMENT CONTROL~~  
Utilities Division

DATE: January 25, 2006

RE: ADDENDUM TO STAFF REPORT FOR WHY UTILITY COMPANY, INC.  
FOR A PERMANENT RATE INCREASE & FINANCING APPROVAL  
(DOCKET NOS. W-02052A-05-0529 & W-02052A-05-0528)

On July 22, 2005, Why Utility Company, Inc., ("Company") filed an application with the Arizona Corporation Commission ("Commission") requesting a permanent rate increase and a financing approval. On December 6, 2005, Staff filed its Staff Report pertaining to these filings.

Subsequent to Staff's filing of its Staff Report, the Company filed a response to the Staff Report and a late supplemental filing that included invoices reflecting well pump/motor replacements for its two wells. Staff has reviewed these invoices and now concurs with the Company that the Company's well pump/motors have an average service life of 1½ years (66.7%). Therefore, Staff recommends that the depreciation rate for Account No. 311 – Pumping Equipment be changed from 12.5 percent to 66.7 percent to reflect the Company's short-term, pump-life experience.

Staff's recommendation to change the life of pumping equipment, the resultant depreciation rate, and recognition of the Company's additional pumping equipment results in an increase to plant in service of \$27,896 and an increase in accumulated depreciation of \$27,442. The net effect of these two adjustments is an increase of \$454 to rate base. See Revised Schedule 2, pages 1, 2, and 3.

Staff also recommends an increase to operating expenses in the amount of \$13,171 to recognize the increased depreciation expense and the increase in property tax expense (caused by a higher revenue requirement). These changes require Staff to recommend an additional increase in the revenue requirement of \$6,965.

Staff is now recommending the Company's proposed rate design. This results in a decrease in operating income of \$6,206. The resultant operating margin of 7.07 percent is lower than originally recommended. See Revised Schedule 1.

Based on Staff's aforementioned new recommendations, all of Staff's Schedules have been altered. Please see Staff's Revised Schedules as follows: Revised Schedule 1, Summary of Filing; Revised Schedule 2, pages 1, 2, and 3, Rate Base, Plant Adjustments, and Accumulated Depreciation Adjustment; Revised Schedule 3, pages 1, 2, and 3, Statement of Operating Income

and adjustments; Revised Schedule 4, pages 1 and 2, Rate Design; and Revised Schedule 5, Typical Bill Analysis.

The aforementioned Schedules replace all of the schedules previously filed with the original Staff Report.

EGJ:EZ:red

Originator: Elena Zestrijan

Attachment: Original and sixteen copies

Service List for: Why Utility Co., Inc.  
Docket Nos. W-02052A-05-0528 and W-02052A-05-0529

Ms. Kimberly A. Grouse  
Snell & Wilmer LLP  
One Arizona Center  
400 East Van Buren  
Phoenix, Arizona 85004

Mr. Christopher C. Kempley  
Chief, Legal Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

Mr. Ernest G. Johnson  
Director, Utilities Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

Ms. Lyn Farmer  
Chief, Hearing Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

**Why Utility Co., Inc.**

Docket No. W-02052A-05-0528 and W-02052A-05-0529

Revised - Schedule 1

Test Year Ended December 31, 2004

**SUMMARY OF FILING**

	-- Present Rates --		-- Proposed Rates --	
	Company as Filed	Staff as Adjusted	Company as Filed	Staff as Adjusted
Revenues:				
Metered Water Revenue	\$30,029	\$30,029	\$68,965	\$68,965
Unmetered Water Revenue	5,655	5,655	5,655	5,655
Other Water Revenues	380	380	380	380
Total Operating Revenue	\$36,064	<b>\$36,064</b>	\$75,000	<b>\$75,000</b>
Operating Expenses:				
Operation and Maintenance	\$50,004	\$49,747	\$50,004	\$49,747
Depreciation	28,142	12,111	28,142	12,409
Property & Other Taxes	5,050	4,509	5,050	7,541
Income Tax	1,505	0	1,505	0
Total Operating Expense	\$84,701	<b>\$66,367</b>	\$84,701	<b>\$69,697</b>
Operating Income/(Loss)	(\$48,637)	<b>(\$30,303)</b>	(\$9,701)	<b>\$5,303</b>
Rate Base O.C.L.D.	\$409,460	\$23,518	\$409,460	\$23,518
Rate of Return - O.C.L.D.	-11.88%	-128.85%	-2.37%	22.55%
Operating Margin	-134.86%	-84.03%	-12.93%	7.07%

**Why Utility Co., Inc.**

Docket No. W-02052A-05-0528 and W-02052A-05-0529

Test Year Ended December 31, 2004

Revised - Schedule 2

Page 1 of 3

**RATE BASE**

	----- Original Cost -----			
	Company	Adjustment		Staff
Plant in Service	\$738,456	\$46,054	A	\$784,510
Less:				
Accum. Depreciation	334,389	431,963	B	766,352
<b>Net Plant</b>	<b>\$404,067</b>	<b>(\$385,909)</b>		<b>\$18,158</b>
Less:				
Plant Advances (Meter Deposits)	\$0	\$0		0
Accumulated Deferred Income Taxes	0	0		0
<b>Total Advances</b>	<b>\$0</b>	<b>\$0</b>		<b>\$0</b>
Contributions Gross	\$0	\$0		\$0
Less:				
Amortization of CIAC	0	0		0
<b>Net CIAC</b>	<b>\$0</b>	<b>\$0</b>		<b>\$0</b>
<b>Total Deductions</b>	<b>\$0</b>	<b>\$0</b>		<b>\$0</b>
Plus:				
1/24 Power	\$429	\$0		\$429
1/8 Operation & Maint.	4,964	(33)	C	4,931
Inventory	0	0		0
Prepayments	0	0		0
<b>Total Additions</b>	<b>\$5,393</b>	<b>(\$33)</b>		<b>\$5,360</b>
<b>Rate Base</b>	<b>\$409,460</b>	<b>(\$385,942)</b>		<b>\$23,518</b>

*Explanation of Adjustment:*

- A See Schedule 2 Page 2 of 3.
- B See Schedule 2 Page 3 of 3.
- C Based on Staff's adjustments to operating expenses.

**Why Utility Co., Inc.**

Docket No. W-02052A-05-0528 and W-02052A-05-0529

Test Year Ended December 31, 2004

Revised - Schedule 2

Page 2 of 3

**PLANT ADJUSTMENT**

	Company Exhibit	Adjustment	Staff Adjusted
301 Organization	\$0	\$0	\$0
302 Franchises	0	0	0
303 Land & Land Rights	0	0	0
304 Structures & Improvements	2,895	0	2,895
307 Wells & Springs	400,110	(151,740) A	248,370
311 Pumping Equipment	49,989	46,054 B	96,043
320 Water Treatment Equipment	7,297	0	7,297
330 Distribution Reservoirs & Standpipes	0	107,500 A	107,500
331 Transmission & Distribution Mains	156,986	0	156,986
333 Services	0	22,200 A	22,200
334 Meters & Meter Installations	0	8,040 A	8,040
335 Hydrants	0	14,000 A	14,000
336 Backflow Prevention Devices	0	0	0
339 Other Plant and Misc. Equipment	2,268	0	2,268
340 Office Furniture & Equipment	0	0	0
341 Transportation Equipment	8,300	0	8,300
343 Tools Shop & Garage Equipment	0	0	0
344 Laboratory Equipment	0	0	0
345 Power Operated Equipment	36,842	0	36,842
346 Communication Equipment	0	0	0
347 Miscellaneous Equipment	73,769	0	73,769
348 Other Tangible Plant	0	0	0
105 C.W.I.P.	0	0	0
<b>TOTALS</b>	<b>\$738,456</b>	<b>\$46,054</b>	<b>\$784,510</b>

*Explanation of Adjustment:*

- A To record Staff Engineer's recommended plant to the proper categories.  
 B To record addition to the pumping equipment.

**Why Utility Co., Inc.**

Docket No. W-02052A-05-0528 and W-02052A-05-0529  
Test Year Ended December 31, 2004

Revised - Schedule 2  
Page 3 of 3

**ACCUMULATED DEPRECIATION ADJUSTMENT**

	<u>Amount</u>
Accumulated Depreciation - Per Company	\$334,389
Accumulated Depreciation - Per Staff	766,352 A
<b>Total Adjustment</b>	<b>\$431,963</b>

*Explanation of Adjustment:*

A -	Accumulated Depreciation	754,241
	2004 Depreciation Expense	<u>12,111</u>
	Total Accumulated Depreciation	<u>\$ 766,352</u>

# STATEMENT OF OPERATING INCOME

	Company Exhibit	Staff Adjustments	Staff Adjusted
Revenues:			
461 Metered Water Revenue	\$30,029	\$0	\$30,029
460 Unmetered Water Revenue	5,655	0	5,655
474 Other Water Revenues	380	0	380
Total Operating Revenue	\$36,064	\$0	\$36,064
Operating Expenses:			
601 Salaries and Wages	\$11,800	\$0	\$11,800
610 Purchased Water	246	0	246
615 Purchased Power	10,048	0	10,048
618 Chemicals	0	0	0
620 Repairs and Maintenance	605	3,344 A	3,949
621 Office Supplies & Expense	841	0	841
630 Outside Services	12,674	0	12,674
631 Contractual Services - Professional	0	1,750 B	1,750
635 Water Testing	3,283	(1,750) C	1,533
641 Rents	0	0	0
650 Transportation Expenses	18	0	18
657 Insurance - General Liability	5,494	0	5,494
659 Insurance - Health and Life	0	0	0
666 Regulatory Commission Expense - Rate Case	0	0	0
675 Miscellaneous Expense	4,995	(3,601) D	1,394
403 Depreciation Expense	28,142	(16,031) E	12,111
408 Taxes Other Than Income	1,894	(194) F	1,700
408.11 Property Taxes	3,156	(347) G	2,809
409 Income Tax	1,505	(1,505) H	0
Total Operating Expenses	\$84,701	(\$18,334)	\$66,367
<b>OPERATING INCOME/(LOSS)</b>	<b>(\$48,637)</b>	<b>\$18,334</b>	<b>(\$30,303)</b>
Other Income/(Expense):			
419 Interest and Dividend Income	\$430	\$0	430
421 Non-Utility Income	173,012	0	173,012
424 WIFA Loan Payment	0	0	0
427 Interest Expense	0	0	0
4XX Reserve/Replacement Fund Deposit	0	0	0
426 Miscellaneous Non-Utility Expense	83,824	0	83,824
Total Other Income/(Expense)	\$89,618	\$0	\$89,618
<b>NET INCOME/(LOSS)</b>	<b>\$40,981</b>	<b>\$18,334</b>	<b>\$59,315</b>

**Why Utility Co., Inc.**

Docket No. W-02052A-05-0528 and W-02052A-05-0529

Test Year Ended December 31, 2004

Revised - Schedule 3

Page 2 of 3

**STAFF ADJUSTMENTS**

A	REPAIRS AND MAINTENANCE - Per Company Per Staff	605 3,949	<u>\$3,344</u>
To reclassify from miscellaneous \$4,344 expense and \$1,000 credit.			
B	CONTRACTUAL SERVICES - PROFESSIONAL - Per Company Per Staff	\$0 1,750	<u>\$1,750</u>
To reclass engineering fees from water testing account.			
C	WATER TESTING - Per Company Per Staff	3,283 1,533	<u>(\$1,750)</u>
To reclassify \$1750 to contractual services, professional for the engineering fees.			
D	MISCELLANEOUS EXPENSE - Per Company Per Staff	4,995 1,394	<u>(\$3,601)</u>
Reclassify \$4,344 expense and \$1,000 credit to repairs and maintenance, disallowance of Az. Department of Revenue, audit penalties and interest in the amount of \$208 and \$50 donation to the Coyote Bob's Deli for the food for family bereavement.			
E	DEPRECIATION EXPENSE - Per Company Per Staff	28,142 12,111	<u>(\$16,031)</u>
To disallow Company's depreciation expense. Plant is fully depreciated except for the \$18,158 addition to the water mains expensed in 2004.			

*Explanation of Adjustment:***Pro Forma Annual Depreciation Expense:**

Plant in Service	\$784,510
Less: Non Depreciable Plant	0
Fully Depreciated Plant	<u>766,352</u>
Depreciable Plant	\$18,158
Times: Staff Proposed Depreciation Rate	<u>66.70%</u>
<b>Pro Forma Annual Depreciation Expense</b>	<u><u>\$12,111</u></u>

### STAFF ADJUSTMENTS

F	TAXES OTHER THAN INCOME - Per Company	1,894	
	Per Staff	<u>1,700</u>	<u>(\$194)</u>

Staff removed sales tax paid by the customers, no expense to the Company.

G	PROPERTY TAXES - Per Company	3,156	
	Per Staff	<u>2,809</u>	<u>(\$347)</u>

To correct property tax calculation.

H	INCOME TAXES - Per Company	1,505	
	Per Staff	<u>0</u>	<u>(\$1,505)</u>

To remove income taxes. The Company reported on the application exempt status.

**Why Utility Co., Inc.**

Docket No. W-02052A-05-0528 and W-02052A-05-0529

Test Year Ended December 31, 2004

Revised - Schedule 4

Page 1 of 2

**RATE DESIGN**

Monthly Usage Charge	Present	-Proposed Rates-	
	Rates	Company	Staff
5/8" x 3/4" Meter - Residential	\$ 19.00	\$ 40.00	\$ 40.00
5/8" x 3/4" Meter -Commercial	21.00	40.00	40.00
1" Meter	23.00	42.50	42.50
1½" Meter	25.00	45.00	45.00
2" Meter	27.00	50.00	50.00
3" Meter	\$ 31.00	N/A	120.00
4" Meter	N/A	N/A	220.00
6" Meter	N/A	N/A	450.00
Gallons included in the minimum:	9,000	4,000	4,000
<b>Commodity Rate:</b>			
<b><u>5/8 x 3/4 Inch Meter - Residential</u></b>			
Excess of Minimum - per 1,000 Gallons	\$ 1.00	N/A	N/A
Excess of Minimum - per 1,000 Gallons (4,001-9,000 Gallons)	N/A	\$ 2.00	\$ 2.00
Excess of Minimum - per 1,000 Gallons (9,001-14,000 Gallons)	N/A	\$ 2.15	\$ 2.15
Excess of Minimum - per 1,000 Gallons (Over 14,000 Gallons)	N/A	\$ 2.35	\$ 2.35
<b>Commodity Rate:</b>			
<b><u>5/8 x 3/4 Inch Meter - Commercial</u></b>			
Excess of Minimum - per 1,000 Gallons	\$ 1.00	N/A	N/A
Excess of Minimum - per 1,000 Gallons (4,001-9,000 Gallons)	N/A	\$ 2.00	\$ 2.00
Excess of Minimum - per 1,000 Gallons (9,001-14,000 Gallons)	N/A	\$ 2.15	\$ 2.15
Excess of Minimum - per 1,000 Gallons (Over 14,000 Gallons)	N/A	\$ 2.35	\$ 2.35
<b>Commodity Rate:</b>			
<b><u>1 1/5 Inch Meter</u></b>			
Excess of Minimum - per 1,000 Gallons	\$ 1.00	N/A	N/A
Excess of Minimum - per 1,000 Gallons (4,001-9,000 Gallons)	N/A	\$ 2.00	\$ 2.00
Excess of Minimum - per 1,000 Gallons (9,001-14,000 Gallons)	N/A	\$ 2.15	\$ 2.15
Excess of Minimum - per 1,000 Gallons (Over 14,000 Gallons)	N/A	\$ 2.35	\$ 2.35
<b>Commodity Rate:</b>			
<b><u>2 Inch Meter</u></b>			
Excess of Minimum - per 1,000 Gallons	\$ 1.00	N/A	N/A
Excess of Minimum - per 1,000 Gallons (4,001-9,000 Gallons)	N/A	\$ 2.00	\$ 2.00
Excess of Minimum - per 1,000 Gallons (9,001-14,000 Gallons)	N/A	\$ 2.15	\$ 2.15
Excess of Minimum - per 1,000 Gallons (Over 14,000 Gallons)	N/A	\$ 2.35	\$ 2.35
Standpipe 2 Inch Meter	Commodity per 1,000 Gallons	1.50	4.00

Why Utility Co., Inc.

Docket No. W-02052A-05-0528 and W-02052A-05-0529

Test Year Ended December 31, 2004

Revised - Schedule 4

Page 2 of 2

## RATE DESIGN

### Service Line and Meter Installation Charges

5/8" x 3/4" Meter	\$ 100.00	\$ 600.00	\$ 520.00
3/4" Meter	120.00	600.00	600.00
1" Meter	160.00	650.00	650.00
1½" Meter	300.00	700.00	700.00
2" Meter	400.00	800.00	800.00
3" Meter	N/A	N/A	N/A
4" Meter	N/A	N/A	N/A
6" Meter	N/A	N/A	N/A

### Service Charges

Establishment	\$10.00	\$35.00	\$25.00
Establishment (After Hours)	0.00	0.00	35.00
Reconnection (Delinquent)	20.00	35.00	25.00
Meter Test (If Correct)	0.00	0.00	0.00
Deposit	40.00	80.00	*
Deposit Interest	2.00%	2.00%	*
Re-Establishment (Within 12 Months)	10.00	35.00	**
NSF Check	25.00	25.00	25.00
Deferred Payment	0.00%	1.00%	1.00%
Meter Re-Read (If Correct)	0.00	0.00	0.00
Late Fee	0.00	0.00	0.00

\* Per Commission Rules (R14-2-403.B)

\*\* Months off system times the minimum (R14-2-403.D)

**Why Utility Co., Inc.**

Docket No. W-02052A-05-0528 and W-02052A-05-0529

Revised - Schedule 5

Test Year Ended December 31, 2004

**TYPICAL BILL ANALYSIS****General Service 5/8 - Inch Meter - Residential**

Average Number of Customers: 68

<u>Company Proposed</u>	<u>Gallons</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
Average Usage	12,318	\$22.32	\$57.13	\$34.81	155.96%
Median Usage	6,100	\$19.00	\$44.20	\$25.20	132.63%
<u>Staff Proposed</u>					
Average Usage	12,318	\$22.32	\$57.13	\$34.81	155.96%
Median Usage	6,100	\$19.00	\$44.20	\$25.20	132.63%

Present & Proposed Rates (Without Taxes)  
General Service 5/8 - Inch Meter - Residential

<u>Gallons Consumption</u>	<u>Present Rates</u>	<u>Company Proposed Rates</u>	<u>% Increase</u>	<u>Staff Proposed Rates</u>	<u>% Increase</u>
0	\$19.00	\$40.00	110.53%	\$40.00	110.53%
1,000	19.00	40.00	110.53%	40.00	110.53%
2,000	19.00	40.00	110.53%	40.00	110.53%
3,000	19.00	40.00	110.53%	40.00	110.53%
4,000	19.00	40.00	110.53%	40.00	110.53%
5,000	19.00	42.00	121.05%	42.00	121.05%
6,000	19.00	44.00	131.58%	44.00	131.58%
7,000	19.00	46.00	142.11%	46.00	142.11%
8,000	19.00	48.00	152.63%	48.00	152.63%
9,000	19.00	50.00	163.16%	50.00	163.16%
10,000	20.00	52.15	160.75%	52.15	160.75%
15,000	25.00	63.10	152.40%	63.10	152.40%
20,000	30.00	74.85	149.50%	74.85	149.50%
25,000	35.00	86.60	147.43%	86.60	147.43%
50,000	60.00	145.35	142.25%	145.35	142.25%
75,000	85.00	204.10	140.12%	204.10	140.12%
100,000	110.00	262.85	138.95%	262.85	138.95%
125,000	135.00	321.60	138.22%	321.60	138.22%
150,000	160.00	380.35	137.72%	380.35	137.72%
175,000	185.00	439.10	137.35%	439.10	137.35%
200,000	210.00	497.85	137.07%	497.85	137.07%

# FINANCIAL ANALYSIS

## Selected Financial Data Including Immediate Effects of the Proposed Debt

	[A] Staff Recommended	[B] Staff Recommended with Debt		
1	Operating Income	\$ 5,303	\$	5,303
2	Depreciation & Amort.	12,409		12,409
3	Income Tax Expense	0		0
4				
5	<u>First Two Years - Interest Only</u>			
6	Interest Expense	0		8,017
7	Repayment of Principal	0		0
8				
9	<b>TIER</b>			
10	[1+3] ÷ [6]	N/A		0.66 *
11	<b>DSC</b>			
12	[1+2+3] ÷ [6+7]	N/A		2.21
13				
14	<u>Third Year - Principal + Interest</u>			
15	Interest Expense	0		7,824
16	Repayment of Principal	0		1,998
17				
18	<b>TIER</b>			
19	[1+3] ÷ [15]	N/A		0.68 *
20	<b>DSC</b>			
21	[1+2+3] ÷ [15+16]	N/A		1.80
22				
23				
24	* Although the TIER Ratio is abnormal, the rates recommended by Staff are those			
25	requested by the Company due to the requirements of Rural Utility Service. The DSC			
26	Ratio indicates the Company will be able to make its debt payments.			
27				
28	Short-term Debt	\$ 9,481	1.7%	\$ 9,481 0.5%
29				
30	Long-term Debt	\$ 17,822	3.2%	\$ 202,822 10.7%
31				
32	Contributions	\$ -	0.0%	\$ 1,164,178 61.2%
33				
34	Equity	\$ 525,384	95.1%	\$ 525,384 27.6%
35				
36	Total Capital	\$ 552,687	100.0%	\$ 1,901,865 100.0%
37				
38				
39				

[A] Calendar Year 2004 financial information with Staff adjustments and recommended revenues  
[B] Calendar Year 2004 financial information with Staff adjustments and recommended revenues including the proposed debt